

Message Text

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ACTION NEA-10

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COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 NEAE-00 /109 W

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TO SECSTATE WASHDC PRIORITY 5612

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AMCONSUL CALCUTTA

AMCONSUL MADRAS

UNCLAS SECTION 1 OF 2 NEW DELHI 6268

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SUBJECT: TRADE AND INVESTMENT OUTLOOK ARTICLE

REF: A) CERP 0006, B) NEW DETHI 5446 (1975)

THERE FOLLOWS THE ANNUAL TRADE AND INVESTMENT OUTLOOK ARTICLE DRAFTED
BY THE COMMERCIAL ATTACHE, PAUL V. RAY, JR.
INDIA COMING TO TERMS WITH ECONOMIC REALITIES.

1. THE OVERALL ECONOMIC SITUATION IN INDIA HAS IMPROVED SIGNIFICANTLY
OVER THE PAST YEAR DUE TO GOOD MONSOONS. IN ADDITION TO A RECORD
FOODGRAIN HARVEST OF 109-111 MILLION METRIC TONS, THE INDUSTRIAL
SECTOR CAN NOW LOOK FORWARD TO A MUCH GREATER AVAILABILITY OF SUCH
INPUTS AS ELECTRIC POWER, AGRICULTURAL AND MATERIALS COAL, STEEL AND
CEMENT. LABOR PEACE, ALSO A NECESSITY FOR THE GROWTH OF INDUSTRIAL PRO-
DUCTION, APPEARS TO HAVE BEEN SUCCESSFULLY ACHIEVED.

2. IN 1974 THE GNP GROWTH RATE DIPPED TO LESS THAN 1 PERCENT, PRIMARILY
AS A RESULT OF POOR MONSOONS, AN ANTI INFLATIONARY POLICY THAT STIFLED
INDUSTRIAL PRODUCTION, AND OPEC-GENERATED OIL PRICE HIKES, THE GROWTH
RATE IN 1975, HOWEVER, ROSE APPROXIMATELY 5 PERCENT, AND IS EXPECTED TO
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REMAIN NEAR THIS LEVEL IN 1976. INDUSTRIAL PRODUCTION WAS UP 3.9 PERCENT

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IN 1975, AS COMPARED TO A SLUGGISH 0.2 PERCENT THE PREVIOUS YEAR, AND IS EXPECTED TO REACH 4-6 PERCENT IN 1976. THROUGH A SERIES OF TOUGH FISCAL MEASURES, THE GOVERNMENT SUCCESSFULLY CONTAINED THE 27 PERCENT ANNUAL INFLATION RATE IN 1974, TO AN IMPRESSIVE ANNUAL AVERAGE OF 1.4 PERCENT IN 1975.

3. INDIA'S TOTAL IMPORT BILL FOR 1975 APPROXIMATED DOLS6.1 BILLION OF WHICH 75 PERCENT COVERED THE COSTS OF SUCH CRITICAL IMPORT REQUIREMENTS AS PETROLEUM, FERTILIZERS/CHEMICALS, FOODGRAINS AND INDUSTRIAL MACHINERY AND EQUIPMENT. EXPORT EARNINGS DURING THIS SAME PERIOD, ON THE OTHER HAND, CAME TO ALMOST DOLS4. BILLION - LEAVING A TRADE DEFICIT OF DOLS1.7 BILLION. DUE PRIMARILY TO REMITTANCES FROM INDIANS ABROAD THROUGH LEGAL CHANNELS AND INCREASED EXTERNAL ASSISTANCE FLOWS, THE GOVERNMENT HAS STILL MANAGED TO MAINTAIN A PROFITABLE MARGIN IN FOREIGN EXCHANGE RESERVES THAT INCREASED AT AN ESTIMATED DOLS2.2 BILLION BY THE END OF MARCH,

4. MORE THAN EVER BEFORE, INDIA SEEMS DETERMINED TO PURSUE VIGOROUSLY ITS ECONOMIC DEVELOPMENT PRIORITIES. THESE INCLUDE THE ATTAINMENT OF SELF-SUFFICIENCY IN ENERGY RESOURCES THE FULLER EXPLOITATION OF ITS MINERAL RESOURCES, IN-DEPTH EXPANSION OF THE PRODUCE GOODS INDUSTRIES AND, MOST IMPORTANTLY IN THE INDIAN CONTEXT, THE ACHIEVEMENT OF AGRICULTURAL PRODUCTION ADEQUATE ENOUGH TO MEET ITS GROWING DOMESTIC REQUIREMENTS. IN SUPPORT OF THESE OBJECTIVES, THE GOVERNMENT'S RECENTLY ANNOUNCED BUDGET FOR 1976-77 ALLOWS FOR RECORD ALLOCATIONS TO PRIORITY SECTORS OF THE COSTS.

5. ON THE DOMESTIC INVESTMENT SIDE, THE GOVERNMENT IS CONTINUING A TIGHT CREDIT POLICY TO KEEP INFLATION UNDER CONTROL. TO ENCOURAGE INCREASED INDUSTRIAL PRODUCTION, THE GOVERNMENT WILL PROVIDE INCENTIVES THAT INCLUDE THE ASSURANCE OF THE AVAILABILITY OF RAW MATERIALS AND ADEQUATE POWER, GREATER ACCESSIBILITY TO IMPORT LICENSES FOR EXPORT-ORIENTED INDUSTRIES AND OTHER HIGH PRIORITY INDUSTRIAL PROJECTS, AND SOME RELAXATION OF PRICE CONTROLS/EXCISE TAXES FOR THOSE INDUSTRIES POSSESSING CONSIDERABLE UNUTILIZED PRODUCTIVE CAPACITY, SUCH AS THE TEXTILE INDUSTRY.

6. U.S. EXPORTS UP - U.S. EXPORTS TO INDIA TOTALLED NEARLY DOLS1.3 MILLION IN 1975 A 70 PERCENT INCREASE OVER 1974. LIKEWISE, U.S. SHARE OF INDIA'S TOTAL IMPORTS WERE 18 PERCENT TO 21 PERCENT

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OVER THE SAME PERIOD. IN TERMS OF VALUE, US AGRICULTURAL EXPORTS TOOK THEM AS SHARE WITH DOLS7.8 BILLION (DOLS611 KN) IT FOR WHEAT ET AL, OR APPROXIMATELY 58 PERCENT OF ALL US EXPORTS TO INDIA IN 1975, OTHER MAJOR PRODUCT EXPORTS, IN DECREASING TRADE OF VALUE WERE INDUSTRIAL MACHINERY, FERTILIZERS AND CHEMICALS. FOR 1976, TOTAL US EXPORTS TO INDIA COULD GO AS HIGH AS DOLS1.5 BILLION. CURRENT INDICATIONS SHOW THAT THE TOTAL VALUE OF US AGRICULTURE

AL EXPORTS WILL DECREASE SLIGHTLY -TO ABOUT DOL\$658BILION - WHEREAS HIGH TECHNOLOGY MACHINERY, EQUIPMENT AND SERVICES WILL INCREASE.

7.PROMISING MARKETS- PRODUCT CATEGORIES OFFERING GOOD SALES POTENTIAL INCLUDE THE FULL RANGE OF OFF-SHORE OIL EXPLORATION/ DRILLING/PRODUCTION MACHINERY AND EQUIPMENT, SUPER-THERMAL POWER PLANT MACHINERY AND EQUIPMENT, MINING MACHINERY AND ORE PROCESSING EQUIPMENT, SOPHISTICATED ELECTRONICS/COMMUNICATIONS EQUIPMENT, SCIENTIFIC, INDUSTRIAL AND MEDICAL INSTRUMENTS, LATHE PROCESSING AND FINISHING MACHINERY, AND SELECTED, HIGH-TECHNOLOGY PUMPS, VALVES AND COMPRESSORS. U.S. AGRICULTURAL EXPORTS TO INDIA ON COMMERCIAL TERMS WILL, OF COURSE, CONTINUE TO BE THE SINGLE, MOST IMPORTANT PRODUCT EXPORT, BUT AS A PERCENTAGE OF TOTAL US EXPORTS TO INDIA, WILL PROBABLY SLOWLY DECREASE- BARRING ANY UNFORESEEN WEATHER CALAMITIES. AS INDIA SLOWLY INCREASES ITS PRODUCTIVE CAPACITY IN FERTILIZERS AND CHEMICALS, THESE TWO PRODUCT CATEGORIES ARE ALSO LIKELY TO BECOME RELATIVELY LESS IMPORTANT. PROSPECTS OF SIGNIFICANT US EXPORTS OF RAILROAD EQUIPMENT AGAINST INDIA LINES OF CREDIT REMAIN GOOD, PROVIDED THAT US SUPPLIERS RESPOND SERIOUSLY TO BID NOTIFICATIONS.

8. IN ADDITION TO THE SUPERIOR TECHNOLOGICAL FEATURES AND GENERAL PRICE COMPETITIVENESS OF THE PRODUCT CATEGORIES MENTIONED ABOVE, SEVERAL FACTORS HAVE COMBINED THAT OFFER BETTER THAN-AVERAGE PROSPECTS FOR U.S. SUPPLIERS: A) THE OIL AND NATURAL GAS COMMISSION OF INDIA, A PUBLIC SECTOR ENTERPRISE, HAS BEEN GIVEN VIRTUAL CARTE BLANCHE TO EXPLORE AND DEVELOP INDIA'S OFF-SHORE OIL DEPOSITS AS RAPIDLY AS POSSIBLE. THIS WILL NECESSARILY ENTAIL SIZEABLE ALLOCATIONS OF FREE FOREIGN EXCHANGE; B) THE \$638 MILLION IRANIAN-FINANCED KUDREMUKH IRON ORE PROJECT WILL SOON BE GETTING UNDERWAY, WITH A GOOD POSSIBILITY THAT US FIRMS WILL BE AMONG THE PRIME CONTRACTORS AND MAJOR SUPPLIERS FOR THE PROJECT'S IMPORT REQUIREMENTS WHICH ARE UNCLASSIFIED

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ESTIMATED AT \$300 MILLION; C) COAL INDIA LIMITED (CIL), ANOTHER PUBLIC SECTOR ENTERPRISE, IS SERIOUSLY IN THE MAKE FOR SOPHISTICATED HARD ROCK MINING WINDERS, BELTING EQUIPMENT, COAL CUTTERS, LOADERS, HYDRAULIC PROPS, DRAGLINES, FLAME-PROOF ELECTRICAL EQUIPMENT AND MINE SAFETY EQUIPMENT MOST OF WHICH WILL HAVE TO BE IMPORTED OR MANUFACTURED UNDER LICENSE; AND FINALLY E) THE PROSPECTS FOR THE OTHER PRODUCT CATEGORIES MENTIONED IN THE ABOVE PARAGRAPH ARE GOOD BECAUSE THEY FIGURE PROMINANTLY IN THOSE INDUSTRIAL DEVELOPMENT PROJECTS TO WHICH THE GOVERNMENT HAS ATTACHED A VERY HIGH PRIORITY. ONE IMPORTANT CONSTRAINT, WHEREA PROJECT IS NOT FINANCED BY AN INTERNATIONAL INSTITUTION, WILL BE THE LACK OF AVAILABILITY OF COMMERCIAL OR U.S. GOVERNMENT FINANCING. IT IS HERE THAT OTHER FOREIGN COMPETITORS ARE FREQUENTLY AT AN ADVANTAGE VIS-A-VIS THE U.S.

9. MAJOR IMPORTERS - GOVERNMENT PUBLIC SECTOR ENTERPRISES SUCH AS THE TRADING CORPORATION (STC), THE MINERALS AND METALS TRADING CORPORATION (MTC), HEOIL AND NATURAL GAS COMMISSION (ONGI), COAL INDIA LIMITED (CIL), THE KUDREMUKH IRON ORE COMPANY LIMITED (KIOCL), POST AND TELEGRAPH DEPARTMENT, THE ELECTRONICS TRADE AND TECHNOLOGY DEVELOPMENT CORPORATION OF INDIA (ETTDC) AND HESAXBET#

NOTE BY OC/T: NEW DELHI 6268 (SEC 1 OF 2) #AS RECEIVED FINAL SENTENCE OF TEXT. CORRECTION TO FOLLOW.

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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UNCLAS SECTION 2 OF 2 NEW DELHI 6268

COU II OF SCIENTIFIC AND INDUSTRIAL RESEARCH (CSIR) A BRANCH OF THE DEPARTMENT OF SCIENCE AND TECHNOLOGY - ARE FAST BECOMING THE MAJOR BUYERS/DISTRIBUTORS AND/OR END-USERS OF IMPORTED RAW MATERIALS, MACHINERY AND EQUIPMENT. THE PRIVATE SECTOR, HOWEVER, STILL PLAYS AN IMPORTANT ROLE IN THIS AREA. IN EITHER CASE AND THE EXPRESSED PREFERENCES OF PUBLIC OFFICIALS TO THE CONTRARY, US FIRMS THAT HAVE HAD EXPERIENCE IN INDIA ARE UNIFORMLY AGREED THAT COMPETENT LOCAL AGENTS ARE INDISPENSABLE IN FOLLOWING UP BUSINESS LEADS. THEY HAVE BEEN USEFUL IN REPORTING AND NEGOTIATING ON TRADE OPPORTUNITIES, AND IN FOLLOWING UP WITH IMPORT LICENSING AUTHORITIES. MORE THAN 2000 U.S. FIRMS MAINTAIN AGENCY REPRESENTATION IN INDIA.

10. ROLE OF FOREIGN INVESTMENT - IN 1973, THE GOVERNMENT ENACTED THE FOREIGN EXCHANGE REGULATION ACT (FERA), WHICH ATTEMPTS TO

DEFINE THE ROLE FOREIGN INVESTMENT WILL PLAY IN INDIA. THAT ROLE IS STILL BEING DEFINED AND WILL TAKE SOME TIME TO CRYSTLIZE,BUT ONE MESSAGE IS CLEAR FOR PROSPECTIVE NEW FOREIGN INVESTMENT.ONLY EQUITY INVESTMENT THAT INVOLVES A SUBSTANTIAL ESPTR#COMMITMENT AND/OR THE TRANSFER OF NEEDED HIGH TECHNOLOGY INPRIORITYSECTOR INDUSTRIES WILL BE GIVEN SERIOUS CONSIDERATION.

11. IN APRIL, THE GOVERNMENT INTRODUCED FURTHER, AND PERHAPS UNCLASSIFIED

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SIGNIFICANT, AMENDMENTS TO THE FERA GUIDELINES, THATAPPLY TO BOTH EXISTING AS WELL AS PROSPECTIVE NEW FOREIGNINVESTMENTS. THE GUIDELINES, AS AMENDED, TAKE A MORE REALISTIC ACCOUNT OF THE COMPLEXITIES OF FOREIGN EQUITY INVESTMENTS AND THEIR RELATIVE CONTRIBUIONS TO THE ECONOMIC DEVELOPMENT PRIORITIES OF THE COUNTRY. BRIEFLY, THE AMENDMENTS NOW ALLOW FOREIGN FIRMS TO RETAIN 100 PERCENT EQUITY, IF THEY EXPORT 100 PERCENT OF THEIR PRODUCTION. IF 75 PERCENT OF THE FOREIGN FIRMS PRODUCTION IS EITHER EXPORTED OR NEEDED HIGH TECHNOLOGY PRODUCTS, THEY WILL BE ALLOWED TO RETAIN UP TO 74 PERCENT EQUITY. FOREIGN FIRMS WHOSE PRODUCTION OF REQUIRED HIGH TECHNOLOGY PRODUCTS ACCOUNTS FOR AT LEAST 60 PERCENT OF TOTAL PRODUCTION WILL BE ALLOWED TO RETAIN 51 PERCENT EQUITY - PROVIDED THEY ALSO ASSUME A 10 PERCENT EXPORT COMMITMENT. A 51 EQUITY RETENTION WILL ALSO BE PERMITTED FOR THOSE FIRMS WHOSE EXPORTS ACCOUNT FOR 40 PERCENT OF THEIR TOTAL TURNOVER. IF NONE OF THESE CONDITIONS CAN BE MET, A MAXIMUM OF 0#PERCENT EQUITY WILL BE ALLOWED - IN THE CASE OF EXISTING FOREIGN PRIVATE INVESTMENT. THE GOVERNMENT IS NOT LIKELY TO ENTERTAIN NEW FOREIGN INVESTMENT PROPOSALS THAT DO NOT MEET THESE CRITERIA. THE NEW FERA GUIDELINES WILL NOT APPLY TO FOREIGN DRUG AND PHARMACEUTICAL FIRMS.

12. THE POTENTIAL PRIVATE INVESTOR SHOULD ALSO BE AWARE THAT THERE ARE FREQUENTLY AS TIME-CONSUMING, BUREAUCRATIC OBSTACLES THAT WILL CONFRONT HIM, DESPITE THE BEST EFFORTS OF THE GOVERNMENT'S POLICYMAKERS AND MID-LEVEL DECISION MAKERS TO CREATE AN ATTRACTIVE FOREIGN INVESTMENT CLIMATE IN SELECTED PRIORITY SECTORS. THESE OBSTACLES ASIDE, INDIA OFFERS THE FOREIGN INVESTOR A POTENTIALLY LARGE AND GROWING MARKET, WELL DEVELOPED INFRASTRUCTURE, EXTENSIVE NATURAL RESOURCES, ESPECIALLY MINERALS, AN ESTABLISHED DOMESTIC CAPITAL MARKET, COMPETENT MANAGERS AND PLENTIFUL SKILLED LABOR AT RELATIVELY LOW WAGES.

13. AREAS OF POSSIBLE FOREIGN INVESTMENT - SOME OF THE MORE PROMISING AREAS OF NEW FOREIGN INVESTMENT INCLUDE: A) OFF-SHORE OIL MACHINERY AND EQUIPMENT B) SHIP ANCILLIARIES C) SPECIAL STEELS D) ELECTRONIC COMPONENTS AND EQUIPMENT, E) INDUSTRIAL INSTRUMENTS - INDICATING RECORDING AND REGULATING DEVICES FOR PRESSURE, TEMPERATURE, FLOW, WEIGHTS AND LEVELS F) SCIENTIFIC INSTRUMENTS G) NITROGENOUS FERTILIZERS, USING COAL AS FEED STOCK AND PHOSPHATIC

FERTILIZERS,H) SYNTHETIC RESINS AND PLASTICS, I) MAN-MADE FIBRES,J) I
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NSECTICIDES, FUNGICIDES AND WEEDICIDES, K) PLATE GLASS A DL) (CERAMIC
S) REFRACTIES.

14. STATUS OF U.S. PRIVATE INVESTMENT - THE PROFIT RECORD OF U.S. FIRMS
IN INDIA INDICATES THAT A COMPANY WILLING
TO OPERATE WITHIN THE FERA GUIDELINES CAN DO WELL. THE NUMBER OF
U.S.-INDIA JOINT COLLABORATIONS PARTICULARLY LICENSING ARRANGEMENTS, CON-
TINUES TO RISE ALTHOUGH MOST ARE SMALL AND THE VALUE OF U.S.
EQUITY INVESTMENT IN INDIA REMAINS CONSTANT. AT THE END OF 1974, THERE WERE
400 JOINT COLLABORATIONS, OF WHICH ABOUT 120 INVOLVED
EQUITY PARTICIPATION TOTALING \$351 MILLION AT BOOK VALUE. DURING
1975-77, THE GOVERNMENT MADE AN ADDITIONAL \$38 MILLION IN U.S.-INDIA JOINT COLLABORATIONS
OF WHICH 73 INVOLVED EQUITY TOTALING APPROXIMATELY \$1.5 MILLION IN
NEW INVESTMENTS. S.A.X.B.E.

NOTE BY OC/T: NEW DELHI 6268 (SEC 2 OF 2) #TEXT AS RECEIVED.
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